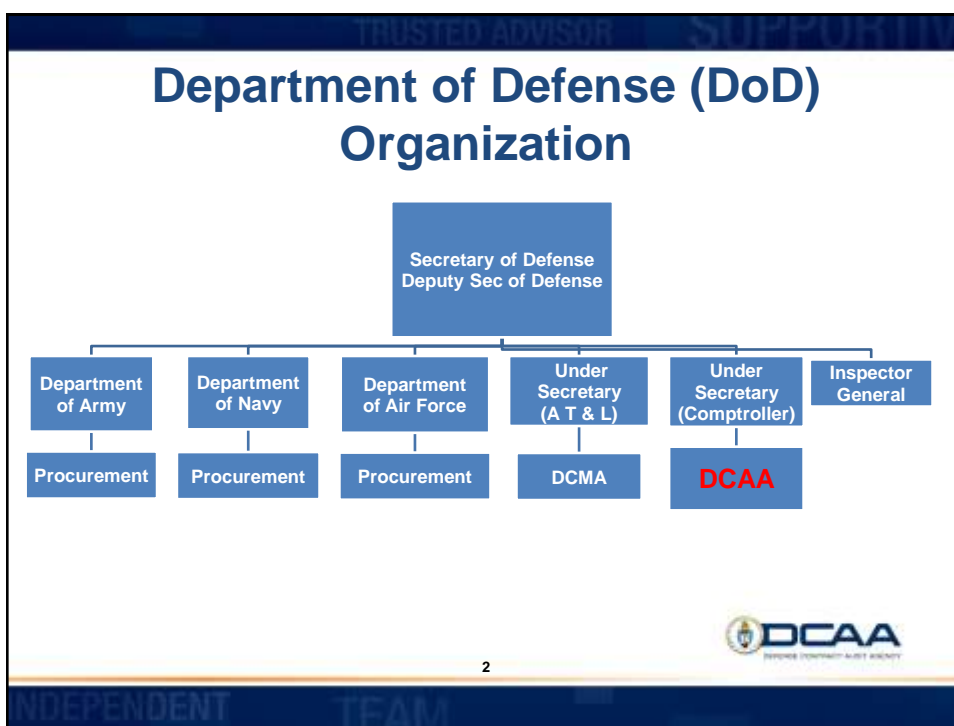


Pre-Award Accounting Systems

2013 National SBIR Conference

Christopher Andrezze , CPA
Special Assistant to the Deputy Director
May 16, 2013

The views expressed in this presentation are DCAA's views and not necessarily the views of other DoD organizations



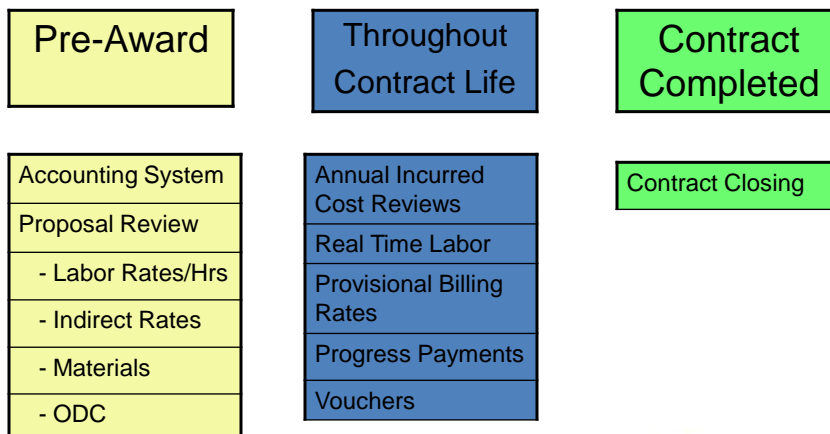
Defense Contract Audit Agency

- Approximately 5,000 employees located at over 300 offices throughout the United States and overseas
- Responsibilities and Duties:
 - Perform all needed contract audits for DoD
 - Provide accounting and financial advisory services to DoD (and civilian when requested) acquisition and contract administration components during all contract phases:
 - Pre-award
 - Contract execution
 - Settlement (contract closing)



3

DCAA Audits Through Various Phases of a Contract



4

Prior to Contract Award

- Contracting Office or DCMA conducts Pre-award Survey to consider responsibility of prospective contractor
- Design of the Accounting System is part of the Pre-award Survey (SF 1408 Criteria)
- DCAA requested to evaluate design of Accounting System



5

Pre-award Accounting System Audit

- Evaluates design of Accounting System to determine if it is acceptable for prospective contract
- DCAA or Buying Command will request contractor complete Accounting System Checklist
- Contractor should be prepared to demonstrate how accounting system satisfies SF 1408 criteria at initial meeting



6

Pre-award Accounting System Adequacy Checklist

Checklist, based on SF 1408 criteria, is generally used by contractors new to government contracting that the Government plans to award a cost type contract (cost reimbursement contracts, or for contractors that will receive progress payments based on cost). The checklist assesses whether the requirements for an adequate accounting system have been met.



7

Process

- **Contracting Officer:**
 - Sends a letter to the contractor explaining the FAR/DFARS requirements for an acceptable accounting system, and have the contractor complete and return a Pre-award Survey of Prospective Contractor Accounting System Checklist
 - Provides the contractor's completed checklist to DCAA with the request for audit, if not provided by the CO, DCAA will request the information directly from the contractor
- **Benefits:**
 - Contractor is aware of the requirements of an acceptable accounting system and asserts it complies with criteria
 - Contractor is prepared for the audit
 - Faster turn around
 - Less rework by contractor and auditor
 - Quicker contract award



8

Accounting System Adequacy Checklist



Adobe Acrobat
Document



9

Generally Accepted Accounting Principles

- Uses accrual basis accounting
- Provides for dual entry accounting
- Posts costs to a general ledger
- System is capable of generating a trial balance to verify that the total of all accounts with debit balances equals the total of all accounts with credit balances
- System is capable of, generating necessary financial statements (balance sheet, income statement, etc.)



10

Proper Segregations of Costs

- Contractor has a good understanding of direct and indirect costs (e.g., policies and procedures)
- System structure provides for proper segregation of costs (e.g., chart of accounts, job cost ledger, under general ledger control, etc.,)
- Contractor has controls in place to preclude improper classification of costs as direct or indirect (chart of accounts, account descriptions, written descriptions of indirect pools and bases)



11

Timekeeping System

- Written timekeeping policies and procedures that address:
 - Accumulating and billing labor costs
 - Filling out and correcting timesheets
 - Processing payroll
 - Performing payroll and labor corrections/transfers
- Labor should be charged to intermediate and final cost objectives based on a timekeeping document (paper or electronic timecards) completed and certified by the employees and approved by the employees' supervisors.



12

Timekeeping System

- Employees should fill out timesheet on a daily basis and include all hours worked
- Labor cost distribution records should be reconcilable to payroll records and labor distribution records should trace to and from the job cost ledger and general ledger accounts



13

Unallowable Costs

- Exclusion from costs charged to Government contracts which are not allowable per FAR Part 31, Contract Cost Principles and Procedures, and other contract provisions
- Written policies and procedures to identify and exclude unallowable costs
- Accounting structure provides for segregation of unallowable costs (separate accounts, different accounting codes, etc.,)
- Unallowable costs need to be identified and excluded from any billings, claims, and proposals applicable to a Government contract



14

Costs by Contract Line Item

- Identification of costs by contract line item and by units (as if each unit or line item were a separate contract), if required by the contract
 - Accounting system needs be able to expand beyond a project number.
 - Each job needs to be expanded to the requisite level of detail as determined by contract terms.
 - Make sure the contract is adequately briefed to determine what this level might be.
- Segregation of pre-production costs from production costs.



15

Limitation of Costs

- Cost accounting information, as required—
 - (i) By contract clauses concerning limitation of cost (FAR 52.232-20), limitation of funds (FAR 52.232-22), and allowable cost and payment (FAR 52.216-7); and
 - (ii) To readily calculate indirect cost rates from the books of accounts;
 - Interim rates should be routinely monitored.
 - At least monthly, an employee needs to be responsible for monitoring total contract expenditure against contract limitations on price or cost.



16

Billings

Requirements

- Billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed.
- Must comply with contract terms.
- Adequate, reliable data for use in pricing follow-on acquisitions.
- Accounting practices in accordance with standards promulgated by the Cost Accounting Standards Board, If applicable, otherwise, Generally Accepted Accounting Principles.



17

Accounting System Requirements After Contract Award

DFARS 252.242-7006 (a) (1) Defines an Acceptable Accounting System as:

- “a system that complies with the system criteria in paragraph (c) of this clause to provide reasonable assurance that—
 - (i) Applicable laws and regulations are complied with
 - (ii) The accounting system and cost data are reliable
 - (iii) Risk of misallocations and mischarges are minimized
 - (iv) Contract allocations and charges are consistent with billing procedures”



18

Accounting System Requirements After Contract Award

- DFARS 252.242-7006 (a) (2) defines a “Contractor’s system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions”
- May include subsystems for specific areas such as:
 - Indirect and Other Direct Costs
 - Compensation
 - Billing
 - Labor



19

DCAA Internet Resources www.dcaa.mil

- **Guidance**
 - Audit Process Overview – Information for Contractors Manual
www.dcaa.mil/audit_process_overview.html
- **Checklists and Tools**
 - DCAA Pre-award Accounting System Checklist
www.dcaa.mil/preaward_accounting_system_adequacy_checklist.html



20